

EQUITY RESEARCH

Information Technology

1 August 2018

Updater Inc. (UPD)

Moving Season in Full Swing

Event:

2Q18a results; model update; revised earnings and PT.

Analysis:

- UPD has recently announced its 2Q18a results with highlights including excellent QoQ growth in bookings and cash receipts; bookings for the quarter totalled US\$5.1M (+132% QoQ) while cash receipts were US\$3.2M (+52% QoQ).
- First half Bookings of US\$7.3M sets a platform for a strong second half in our view as UPD enters peak moving season. 2Q18a bookings were driven by strong initial transaction rates in the Pay TV/Internet and Full Service Moving verticals.
- The company delivered a strong progress update of Paid Programs, and in
 particular in the Pay TV/Internet vertical, where UPD has already achieved its
 10+ Paid Programs target well ahead of schedule, and in Full Service Moving,
 where they are tracking well with 117 of 150+ Paid Programs to date. DIY Moving
 and Insurance will be rolled out in 2H18e, where progress so far has been
 encouraging.
- UPD announced on 25 July the fifth vertical for Business Products will be Local Services. The company will facilitate the connection of potential movers to a host of local service providers including for refurnishing and renovating.
- Large addressable market and new Paid Programs target for Local Services vertical. The company has set a target of 500+ Paid Programs by CY18e end and expects to launch Paid Programs in Local Services during 4Q18e. UPD estimates local businesses spend US\$30-40B annually in marketing.
- Management reaffirmed US\$19-23M FY18e revenue target. The company notes it is tracking ahead of schedule, with Pay TV/Internet and Full Service Moving in particular performing strongly.

Earnings and Valuation:

- Given the ramp in Business Products and move to monetisation, we have revisited our model and now provide an update. The model now includes revenue opportunities from all five Business Product verticals, namely Insurance, Pay TV/Internet, Local Services, DIY Moving, and Full Service Moving.
- We now have a valuation for UPD of \$2.49/CDI, based on our DCF valuation (previously, a valuation range of A\$1.70/CDI to A\$3.14/CDI). We continue to note UPD ultimately aims to engage in 15+ distinct verticals including banking, utilities, big box retail, and pharmaceuticals, which are not presently included in the model. We continue to hold the view the ultimate valuation has the potential to be a multiple of our valuation should the company successfully add to its current five vertical portfolio.

Recommendation:

- We continue to recommend UPD as a Buy and now have a revised price target
 of A\$2.49/CDI, in line with our DCF valuation (previous range of A\$1.703.14/CDI). We keenly anticipate continued ramp in Business Products over
 coming quarters, as well as revenue growth through CY18e and beyond.
- Near term catalysts include: 1) continued high revenue growth driven by growth in market penetration, conversion rates, and transaction rates; 2) Paid Programs launch in remaining targeted verticals for CY18e; 3) entry into additional verticals.

	Recommendation				Buy	
	Previous				Buy	
3	Risk			High		
	Price Target (A\$/CDI)		\$ 2.49			
r	Previous PT Range (A\$/CD	\$1.70-3.14				
	CDI Price (A\$)		\$ 1.245			
•	ASX Code				UPD	
r	52 week low - high (A\$)		0.92-1.455			
3	Methodology				DCF	
>	Capital structure					
•	CDIs on Issue (M)				542.7	
ì	Options (M)				137.7	
S	Undiluted Market Cap, A\$M				675.6	
	Net Cash/(Debt), A\$M				52.8	
,	EV (A\$m)				622.8	
3	12mth Av Daily Volume ('000)				561	
1	Forecasts, A\$M	2017a	2018e	2019e	2020 e	
	Revenue	2.2	22.0	58.2	106.1	
ı	EBITDA	-15.8	-8.4	4.7	42.5	
3	NPAT	-13.7	-8.1	3.7	33.5	
4	EPS, cps	-2.7	-1.2	0.5	4.9	
	EV/Sales, x	278.7	28.3	10.7	5.9	
s	Shareholders					
t	David Greenberg				15.7%	
s	Ryan Hubbard				7.3%	
	Grant Schaffer				5.2%	
	Thorney				5.1%	
/	Board					
9	David Greenberg Exec			ecutive Cl	nairman	
	Ryan Hubbard	Executive Director				
	Grant Schaffer	Non-Executive Director				
	Antony Catalano	Non-Executive Director				
9	Jessica Nagle	Non-Executive Director				
s	Share Price Graph					
	Share Price	Share Price Volume ('000)				
/						



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The analyst does not own UPD securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owns 2,113,057 UPD CDIs and 120,000 options on UPD common stock.

Cranport Pty Ltd owns 4,240,223 UPD CDIs. Refer to end of report for details.

Foster Stockbroking acted as the Co-Manager to the A\$50M placement of 40M CDIs at \$1.25 per CDI in September 2017. Foster Stockbroking received fees as consideration for these services.